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FM AMEMBASSY RANGOON  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 8527  
INFO RUCNASE/ASEAN MEMBER COLLECTIVE  
RUEHBY/AMEMBASSY CANBERRA 1701  
RUEHBJ/AMEMBASSY BEIJING 2146  
RUEHKA/AMEMBASSY DHAKA 5073  
RUEHNE/AMEMBASSY NEW DELHI 5179  
RUEHUL/AMEMBASSY SEOUL 8775  
RUEHKO/AMEMBASSY TOKYO 6347  
RUEHCN/AMCONSUL CHENGDU 1666  
RUEHCHI/AMCONSUL CHIANG MAI 1980  
RUEHCI/AMCONSUL KOLKATA 0514  
RUEAIIA/CIA WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEKJCS/DIA WASHDC  
RUEHGV/USMISSION GENEVA 4190  
RHEHNSC/NSC WASHDC  
RUEKJCS/SECDEF WASHDC  
RUEKJCS/JOINT STAFF WASHDC  
RUCNDT/USMISSION USUN NEW YORK 2169  
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000020

SIPDIS

STATE FOR EAP/MLS; INR/EAP; OES; EAP FOR JYAMAMOTO; EEB FOR  
TSAEGER  
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TREASURY FOR OASIA: SCHUN  
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E.O. 12958: DECL: 01/09/2019  
TAGS: [ECON](#) [EMIN](#) [PGOV](#) [PREL](#) [PINR](#) [BM](#)  
SUBJECT: BURMA: SALE OF IVANHOE MINE DELAYED

REF: 08 RANGOON 763

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4  
(b and d).

#### Summary

11. (C) Canadian-owned Ivanhoe Copper Co. continues to negotiate with state-owned Mining Enterprise-1 (ME-1) and a consortium of three Chinese companies - WanBo Copper, Norinco Copper, and Aluminum Corporation of China (Chalco) - for the sale of its joint venture company, Myanmar Ivanhoe Copper Co., Ltd. (MICCL). According to MICCL Acting Director Glenn Ford, Ivanhoe plans to sell its share of MICCL to ME-1 for \$100 million, who in turn will sell the entire company to the consortium for \$250 million. Ivanhoe initially expected the sale to be complete by December 2008; however, ME-1 and the Chinese consortium continue to hammer out details. Ford predicts the sale will be final by April 2009. End Summary.

#### Buying and Selling MICCL

12. (C) Myanmar Ivanhoe Copper Co., Ltd. (MICCL), a 50/50 joint venture between Canadian-owned Ivanhoe Mines Ltd. and state-owned Mining Enterprise-1, began operations in Burma in 11994. For the past three years, Ivanhoe has been trying to divest its shares in MICCL, due to the GOB's continued interference in operations, refusal to pay Ivanhoe its share of profits, and unreasonable demands for increased taxes (Reftel). After several failed attempts to negotiate with interested buyers, Ivanhoe in 2007 began discussions with a

consortium of three Chinese companies -- WanBo Copper, Norinco Copper, and Aluminum Corporation of China (Chalco) -- on the sale of its shares. Glenn Ford, Acting Director of MICCL, informed us that initial negotiations were positive; however, once the consortium approached ME-1 about the sale, the Ministry of Mines informed Ivanhoe it could only sell its shares to ME-1. This arrangement forces Ivanhoe to pay to the GOB both capital gains tax, set at 40 percent, and a corporate tax of 10 percent.

¶3. (C) According to Andrew Mitchell, Ivanhoe Representative in Burma, Ivanhoe agreed to sell its shares to ME-1 because the company is desperate to divest. While it would be easier and more profitable to negotiate directly with the Chinese, Ivanhoe is afraid the GOB would block the sale. In early 2008, Ivanhoe and ME-1 agreed on a USD 100 million purchase price. However, ME-1 lacked the money to pay Ivanhoe directly -- it needed to sell MICCL first (technically selling what it did not own). In September 2008, ME-1 began negotiating with the Chinese consortium over the purchase of MICCL, using regime crony Tay Za as a broker. Ford told us the Chinese agreed to pay USD 250 million for the mine and equipment, USD 50 million to Tay Za in consulting fees, and an additional USD 100 million to upgrade the mine.

¶4. (C) The deal was initially slated to be finalized in December 2008; the delay was due to continued negotiations between the Chinese and ME-1. Ford informed us that the Chinese continue to demand additional terms, such as a moratorium on corporate income tax for ten years and a guarantee that China could buy copper at less than USD 4,000/metric ton for a five-year period. During a recent meeting with Mitchell and Ford, the Managing Director of ME-1

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lamented the GOB's decision to prohibit Ivanhoe from selling directly to the Chinese.

¶5. (C) Both Ford and Mitchell surmise the sale of MICCL will be complete by mid-2009, assuming ME-1 agrees to consortium's terms. Per the joint venture agreement, ME-1 has the right to assume control over the mine should the mine be out of operation for one year; MICCL shut down operations last April but produced 20,000 tons of copper in September. According to Ford, Ivanhoe Headquarters instructed him to produce a small amount of copper every six months to prevent the one-year timeframe from elapsing. Ford and Mitchell will travel to Nay Pyi Taw the week of January 12 to meet with ME-1 about the sale; in a December 31 phone call, the Managing Director of ME-1 hinted Ivanhoe should start making preparations to depart Burma.

Comment  
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¶6. (C) That the GOB would prevent Ivanhoe from selling its shares in MICCL directly to the Chinese reflects a desire to profit as much as possible from the copper mine. Ivanhoe is set to pay more than USD 20 million in tax on this sale alone. While that is not ideal, Ivanhoe remains anxious to divest. The Chinese continue to play hardball with the GOB to ensure they get the best deal possible for MICCL. The price of copper continues to fall daily; coupled with the expense of making MICCL operational again, the Chinese need to ensure profitability before signing a final agreement. ME-1 officials recognize that the longer the MICCL copper mine remains closed, the more difficult it will be to sell. ME-1 lacks the ability to run the mine itself; the only way it will be able to resume profit-making is by selling it to the Chinese.

DINGER